

South Bucks District Council

Internal Audit Annual Report

Year ended 31 March 2009

Draft

Presented at the Audit Committee meeting of: 25 June 2009

Approved by: Chris Harris as Head of Internal Audit

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This report has been prepared for South Bucks District Council and should not be disclosed to any third parties without written consent by both RSM Bentley Jennison and our client. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of the Council and senior management of South Bucks District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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1 Introduction

1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of South Bucks District Council’s assurance cycle and if used properly can inform and update the organisation’s risk profile. Internal Audit is just one of the sources of assurance available to the Council and Audit Committee.

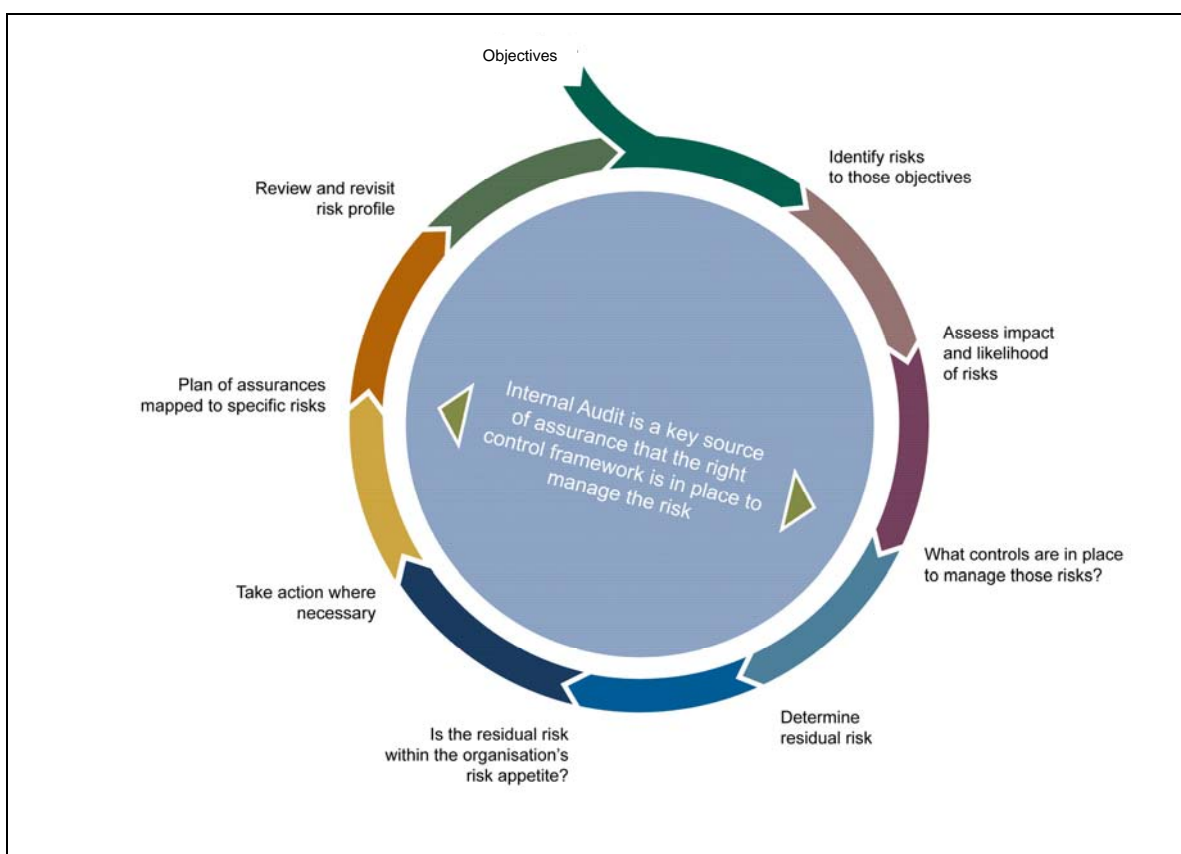


Exhibit A: The Assurance Cycle. © RSM Bentley Jennison

The definition of internal audit, as described in CIPFA’s Code of Practice for Internal Audit in Local Government in the United Kingdom, is set out below:

- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- Whilst Internal Audit “primarily” provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers

consultancy services when making recommendations for improvement arising from assurance work, and fraud-related work.

1.2 Governance Statement

Under Regulation 4[2] of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit [Amendment] [England] Regulations 2006, authorities are required to publish a statement on internal control. From 2007/08, authorities have had to publish an annual governance statement in line with the CIPFA/SOLACE Good Governance Framework to meet that statutory requirement.

As your internal audit provider, the assignment opinions that RSM Bentley Jennison provides the organisation during the year are part of the framework of assurances that assist the Council prepare an informed governance statement.

2 Internal Audit Assurance for 2008/2009

2.1 Context

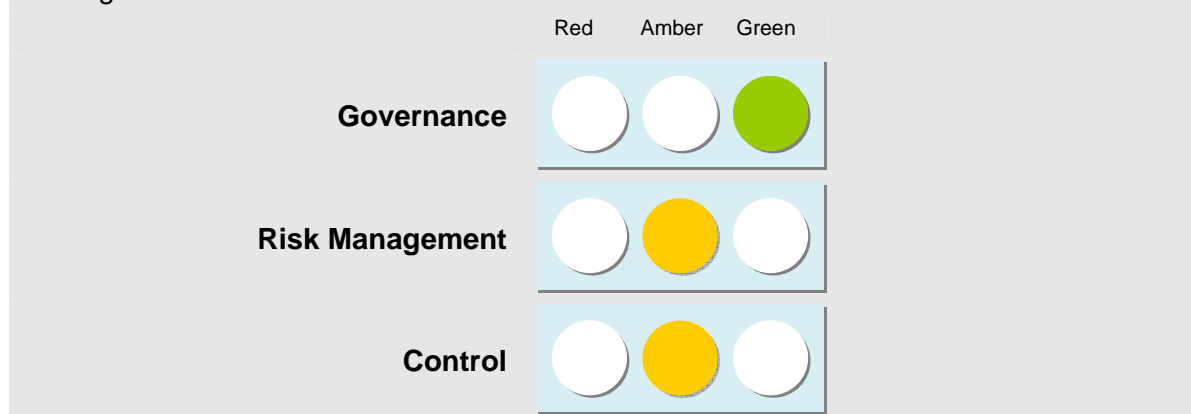
As the provider of the internal audit service to South Bucks District Council we provide the Council through the Audit Committee with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of South Bucks District Council and its senior management team. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

2.2 Internal Audit Assurance Statement

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of South Bucks District Council's arrangements.

For the 12 months ended 31 March 2009, based on the work we have undertaken, our opinion regarding the adequacy and effectiveness of arrangements for governance, risk management and control is as follows:



2.3 Scope of the Internal Audit Opinion

In arriving at our opinion, we have taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2009 (see Appendix A for a risk map of our internal audit assurances and Appendix B for a summary of audits);
- The results of follow-up action taken in respect of audits from previous years;
- Whether fundamental or significant recommendations have been accepted by management and, if not, the consequent risks;
- The affects of any material changes in the organisation's objectives or activities;
- Whether or not any limitations have been placed on the scope of internal audit;

- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation’s internal audit needs have been covered to date.

2.4 The Basis of the Opinion

In forming our opinion we have taken account of the key factors identified within audit reports. We have assessed both the Risk Management and Control opinions as amber as a result of our risk maturity review identifying the Council as only Risk Defined and, in relation to the control opinion, the fact that a limited assurance opinion was provided in relation to arrangements for IT disaster recovery..

Acceptance of Recommendations

All of the recommendations made during the year were accepted by management.

2.5 Governance Statement

The overall opinion may be used by the Council in the preparation of the annual governance statement.

2.6 Conflicts of Interest

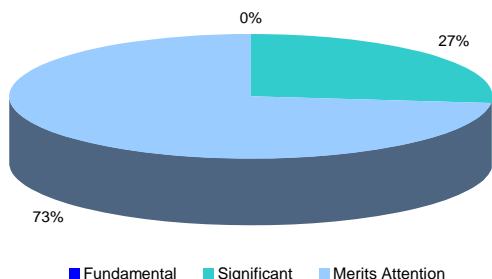
We have not undertaken any work or activity during 2008/09 that would lead us to declare any conflict of interests.

2.7 Benchmarking Data

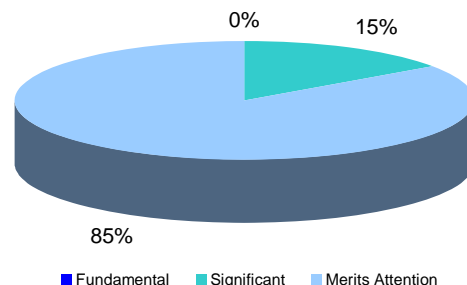
The tables below show the split of internal audit recommendations and opinions for South Bucks District Council in 2008/09 and those made in 2007/08. It is pleasing to note that no fundamental weaknesses were identified in either year, however, a small increase in both significant and merits attention recommendations was noted during 2008/09. This is not considered to represent a weakening in the control environment overall, rather the effect of considering differing areas of control, systems and procedures in each year.

Comparison of the categories of internal audit recommendations made 2008/09 and 2007/08

Recommendations 2008/09



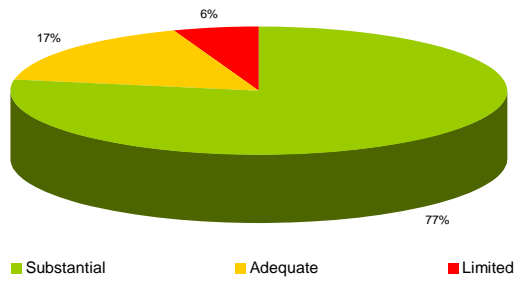
Recommendations 2007/08



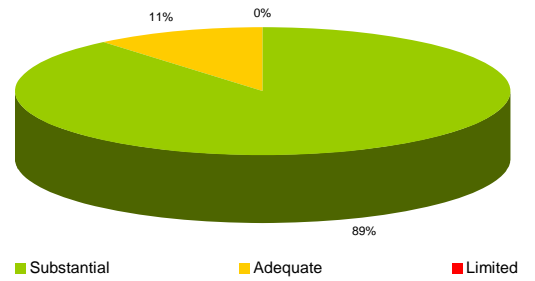
Comparison of assurance levels provided by internal audit in 2008/09 and 2007/08

For assurance assignments only






Assurance Levels 2008/09
















Assurance Levels 2007/08





Appendix A: Internal Audit Assurance Map 2008/09

Risk Based Coverage				
Risk(s)	Source	Headline Findings	Assurance	
Housing allocation is not honoured. Homeless facilities are not made available.	Strategic Audit Plan	<p>Our review of Housing allocations resulted in the following key recommendations being made.</p> <ul style="list-style-type: none"> There is no formal policy document on the Rent Deposit Guarantee Scheme and the information on the Intranet and Internet sites is inadequate. There is also no formal corporate policy or strategy for the management of contractors. The Rent Deposit Guarantee Scheme is not being monitored on a regular basis. 	Adequate	
If no sustainability action plan is put in place then an opportunity will be lost to improve risk management, identify cost savings, improve reputation and aid communication with stakeholders	Strategic Audit Plan	<p>From our review of Sustainability based on the evidence obtained, we have concluded that the design of the system of control, if complied with, is sufficiently robust to provide assurance that the activities and procedures in place will achieve the objectives for the system.</p> <p>We have made one significant recommendations arising from the following:</p> <ul style="list-style-type: none"> That whilst the Director of Services is the council champion for sustainability, there is no defined role for a sustainability officer. 	Adequate	
Statutory legislation is not observed. Employee records are inadequate.	Strategic Audit Plan	The review of the HR function and Training confirmed that adequate arrangements were in place. A number of recommendations were made which merit attention.	Adequate	
The opportunity to meet needs through partnerships entered into by the Authority are not developed.	Strategic Audit Plan	Our review of Partnerships confirmed that systems and procedures in place were operating satisfactorily. Minor recommendations were made to further enhance controls in place.	Substantial	
The Council may not have developed an IT Strategy which supports the development of IT Services	Strategic Audit Plan	The key finding from our review of the IT Strategy was that there is a requirement for a formalised management structure to manage and monitor implementation of the IT Strategy.	Substantial	

Contract services are not monitored to ensure contractual agreements are achieved.	Strategic Audit Plan	The key finding from this review is that the Contract Services Management Team did not have sufficient arrangement in place to make default charges on the contractor for repetitive missed collections.	Substantial	
Commercial premises are not accurately or adequately identified. Change of status is not promptly recorded.	Strategic Audit Plan	Our review of NNDR confirmed that the Council need to ensure that all unknown charities are assessed as authentic by checking registration details prior to authorising NNDR relief. Evidence of the check should be retained on file. The mandatory relief form should be amended to include a section informing applicants that validity checks on charity status will be conducted.	Substantial	
Benefit payments are incorrectly calculated and overpayments are made.	Strategic Audit Plan	Our review of Housing Benefits recommended that the documented recovery process for overpayments should be followed for all overpayments	Substantial	
An appropriate disaster recovery plan may not be in place to ensure that key systems can be recovered within a reasonable timescale.	Strategic Audit Plan	The key findings from our review of IT Disaster Recovery arrangements were as follows: <ul style="list-style-type: none"> • The need to ensure a Business Impact Analysis is undertaken by all Service Areas to facilitate the determination of critical IT systems and the identification and prioritisation for recovery. • The need for focussed risk based operational IT disaster recovery planning, based on critical systems and related processing prioritisation, identified from the business impact analysis in order to reduce the risk of critical systems not being recovered within required timeframes. • A requirement exists for proper identification and documentation of systems configuration and supplier information, to reduce the risk that systems will not be recovered promptly in the event that they are needed in disaster situation. • The need to ensure that a formal disaster recovery testing and training plan is in place, which is integrated with the Business Continuity Planning to reduce the risk that documented contingency procedures may not be effective in practice. 	Limited	
Lack of knowledge and expertise and non-compliance with statutory legislation.	Strategic Audit Plan	The key finding from our review of Corporate Governance was that the Council should issue the 'Notification by a Member of a Local Authority of change to Personal Interests' to all Members on an annual basis. Members should be required to make a positive return and if changes are applicable, this should be recorded on the form and signed.	Substantial	
Domestic properties alterations to bandings are not promptly recorded. Exemptions are not justified.	Strategic Audit Plan	Our review of Council Tax confirmed that systems and procedures were operating satisfactorily. Three minor recommendations were made which merit attention.	Substantial	

Ineffective management controls may result in objectives regarding traffic control, safety and congestion not being achieved.	External Audit Reliance	High standards in the operation of the Car Parks system have been maintained from the previous year and the implementation of new software has helped to further improve and simplify the maintenance of records. No recommendations were made.	Substantial	
If the Civil Contingencies Act is not observed and acted upon it places at risk the authority's ability to provide essential services.	Strategic Audit Plan	Our review of the Civil Contingencies Act (Business Continuity Plans) confirmed that there was a need to ensure that the Business Continuity Plan should be completed and publicised to all staff as soon as possible.	Substantial	
Other Coverage				
Area	Rationale for coverage	Headline Findings	Assurance	
General Ledger (including budget setting and monitoring)	External Audit Reliance	Our review of the General Ledger resulted in us making one significant recommendation that there is a need to ensure that staff access levels to the Financial Management System are adequately documented and kept up to date.	Substantial	
Income & Debtors	External Audit Reliance	Our review of Income and Debtors confirmed that adequate arrangements were in place. One recommendation was made which merits attention being that consideration should be given to requiring an officer from the Finance team to periodically review details of suppressed invoices to provide assurance as to the validity of reasons for suppression.	Substantial	
Creditors	External Audit Reliance	Our review of Creditor payments confirmed that arrangements in place were satisfactory. One recommendation meriting attention was made relating to the need to ensure that payments in advance of an invoice should be made on a proforma document, which highlights that VAT cannot yet be claimed and that a proper document is awaited.	Substantial	
Cash, Banking & Treasury Management	External Audit Reliance	The review of Cash, Banking and Treasury Management confirmed satisfactory arrangements were in place. One recommendation was made which merits attention relating to the need for old reconciling items to be cleared from the reconciliations	Substantial	
Counter Fraud	As part of the Authority's anti fraud arrangements proactive fraud work will be undertaken on annual basis targeting specific areas of activity.	This year's review of pro active counter fraud arrangements concentrated on arrangements for control of Fly tipping and on the validation of assets. The key findings from this review were as follows: <ul style="list-style-type: none"> ▪ The service provided by the contractor appears to be of a high standard and adequately meets the needs of the Council. ▪ Budgets and costs are closely monitored using a comprehensive spreadsheet. 	Substantial	

Follow up	Ongoing assurance over the implementation of internal audit recommendations.	We have undertaken a Follow Up review of recommendations made during 2008/09 and confirmed that reasonable progress has been made in implementation.	Reasonable progress	
Risk Maturity	<p>Our internal audit methodology is linked to your risk management processes, and therefore the more risk mature the organisation, the more closely the organisation will be able to map internal audit assurance to specific risks, and to use this assurance to inform its risk profile and associated decisions.</p> <p>The thematic review is being performed across our client base in 2008/09 and we will use this to inform our annual opinion on risk management as well as to inform our audit plans for 2009/10 onwards.</p>	<p>Following our Risk Maturity review we consider the Council to be Risk Defined.</p> <p>The key findings from this review are:</p> <ul style="list-style-type: none"> ▪ All Business Unit Risk Registers should be subject to regular review. ▪ The Risk Management Strategy should be updated to include the definitions and significance of overall risk scores ▪ The Council should assess risks on a residual basis. The residual risk score should be detailed on the relevant risk registers. ▪ The Council should define and communicate its risk appetite. The appetite should ideally be included within the Risk Management Strategy. ▪ Strategic and Operational risk registers should be amended to detail the sources of assurance over controls and early warning indicators. ▪ Action plans should be developed to further identify gaps and weaknesses in controls. These should be subject to regular review and be referred to on the risk register. 	Advisory	

Appendix B: Internal Audit Opinions and Recommendations 2008/09

Auditable Area	Planned Work (Days)	Actual Work (Days)	Assurance Level Given	Number of Recommendations made				
				Fundamental	Significant	Merits Attention	In Total	Agreed
Housing	6	6	Adequate	0	3	5	8	8
Sustainability	8	8	Adequate	0	3	2	5	5
HR & Training	6	6	Adequate	0	0	9	9	9
Partnerships	8	8	Substantial	0	0	4	4	Draft Report
IT Strategy	7	7	Substantial	0	1	3	4	4
General Ledger	8	8	Substantial	0	1	1	2	2
Risk Management Processes	8	8	Risk Defined	0	1	5	6	5
Income & Debtors	8	8	Substantial	0	0	1	1	1
Creditors	5	5	Substantial	0	0	1	1	1
Cash, Banking & Treasury Management	8	8	Substantial	0	0	1	1	1
Contract Services	8	8	Substantial	0	1	4	5	5
NNDR	5	5	Substantial	0	1	0	1	1
Housing Benefits	12	12	Substantial	0	1	0	1	1
IT Disaster Recovery	7	7	Limited	0	4	1	5	5
Corporate Governance	6	6	Substantial	0	1	5	6	6
Council Tax	7	7	Substantial	0	0	3	3	3
Car Parks	5	5	Substantial	0	0	0	0	0
Civil Contingencies Act (Business Continuity Plans)	6	6	Substantial	0	2	1	3	3
Follow Up	5	5	Reasonable Progress	0	1	8	9	9
Pro-active fraud	5	5	Substantial	0	0	1	1	1
Total Recommendations					20	55	75	

The definitions for the level of **assurance** that can be given are:

	Level	Effectiveness	Control Adequacy	Control Application
positive opinions	Substantial Assurance	Targets have been met or exceeded.	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Adequate Assurance	Targets have been closely missed or there are appropriate reasons as to why they have not been met	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
negative opinion	Limited Assurance	Targets have not been met and no reasons are given as to why.	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

Recommendations made during the year have been categorised as follows:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits Attention	Action advised to enhance control or improve operational efficiency.

Within our **risk maturity** reviews, we have gauged organisations' risk maturity on a scale from risk naïve to risk enabled:

